

**AGENCIES OF THE SECRETARY OF FINANCE**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2008**



## **AUDIT SUMMARY**

This report summarizes our fiscal year 2008 audit results for the five agencies under the Secretary of Finance and arises from our work on the Comprehensive Annual Financial Report.

We have included two risk alerts, which are beyond the corrective action of management and require the action of either another agency, outside party, or a change in the method by which the Commonwealth conducts its operations to improve efficiency, reduce risk and enhance its operations.

- ***Modernize Financial Systems and Processes (Repeat Risk Alert)***

Government Transparency is a concept which requires governments to provide a substantial amount of information online using the internet. The federal government has already enacted legislation to provide information online and is considering new legislation. Additionally, in the past several General Assembly sessions, members have introduced a number of bills modeled on the existing and proposed federal legislation that makes state data available on the internet.

Much of the requested information one would typically find in modern enterprise accounting and information systems. However, the Commonwealth's systems do not contain the information, or cannot easily exchange the information, due to their age and lack of integration. Further, the Commonwealth's key systems are antiquated and are fundamentally at risk of a failure where either the vendor or expertise of keeping the system operating could become unsustainable. This limits the Commonwealth's financial reporting capabilities, which has become more of a concern given the recent push for more timely financial reporting in the government sector, particularly in the areas of federal grants and contracts reporting and disclosures related to municipal securities.

It will take a substantial amount of time, effort, and coordination among agencies to upgrade and replace the Commonwealth's systems. Therefore, the Commonwealth needs to continue to move forward with the modernization of its systems and with its plan to develop standardized data requirements, which would ease the exchange of data between central systems and systems maintained by other agencies and institutions in the Commonwealth.

- ***Consolidate Functions within Secretary of Finance Agencies***

The Secretary of Finance should review the current organization and operations of the Departments of Accounts and Treasury and consider consolidating certain functions to improve the effectiveness and efficiency. We believe the Secretary should transfer many of Treasury's Trust Accounting functions in the Operations Division to Account's General Accounting or Financial Reporting Divisions. The transfer would eliminate redundancy between Accounts and Treasury, strengthen internal controls, and clarify and improve staff responsibilities for accounting and financial reporting of the Commonwealth's cash and investments and long-term debt activity.

The report also includes other internal controls and compliance findings and recommendations.

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## COMMENTS TO MANAGEMENT

### Audit Risk Alerts:

During the course of our audits, we encounter issues that are beyond the corrective action of management and require the action of either another agency, outside party, or a change in the method by which the Commonwealth conducts its operations to improve efficiency, reduce risk and enhance its operations. The issues in this report arise from our work on the Comprehensive Annual Financial Report and the agencies within the Secretary of Finance.

The audit risk alert Modernize Financial Systems and Processes affects the Commonwealth of Virginia as a whole, and requires the attention of the Governor and multiple agencies and secretariats as we indicate below. The risk alert Consolidate Functions within Secretary of Finance Agencies will affect both the Departments of Accounts and Treasury.

### Modernize Financial Systems and Processes (Repeat Risk Alert)

#### Financial Systems

Government Transparency is a concept which requires governments to provide a substantial amount of information online using the internet. The federal government has already enacted legislation to provide information online and is considering new legislation, which will require both the state and local governments to provide the federal government information on the use of grants and sub-grants.

Additionally, in the past several General Assembly sessions, members have introduced a number of bills modeled on the existing and proposed federal legislation that makes state data available on the internet. Much of the information is typically found in modern enterprise accounting and information systems. However, the Commonwealth's systems do not contain the information or cannot easily exchange the information, due to their age and lack of integration.

Statewide systems such as the Commonwealth Accounting and Reporting System (CARS) the Commonwealth Integrated Payroll and Personnel System (CIPPS), the Personnel Management Information System (PMIS), and the eVa procurement system cannot exchange information and have failed to begin standardizing information needs. Many state agencies and institutions in the Commonwealth have modern accounting and information systems, which would benefit from standardized data requirements and position the central agencies to more easily adapt to a modern system.

The Commonwealth's current accounting systems have long passed their normal life cycle and are fundamentally at risk of a failure where either the vendor or expertise of keeping the system operating could become unsustainable. There are clear examples within the Commonwealth of systems requiring replacement because vendors have abandoned the technologies, requiring the Commonwealth to upgrade the system with no improvements or efficiencies.

Finally, the current accounting system limits the Department of Accounts' (Accounts) ability to expedite both monthly and annual financial reporting processes since it does not provide much of

the information, such as accounts receivable and long-term financial obligations, that is necessary to prepare any report other than cash receipts and disbursements. This limitation has become more of a concern given the recent push for more timely financial reporting in the government sector, particularly in the areas of federal grants and contracts reporting and disclosures related to municipal securities.

In the prior year, we reported that the Commonwealth, through its Virginia Enterprise Application Project, had begun the process for replacing its accounting, payroll, fixed asset, and budgeting systems. However, the Commonwealth placed this project on hold in January 2008 due to a lack of funding.

In April 2008, the Virginia Department of Transportation (VDOT) obtained approval from the Information Technology Investment Board to begin a project to develop a new financial management system while also providing a base enterprise application for the Commonwealth, which will essentially replace CARS. This project remains a joint effort as VDOT is working closely with Accounts, the Virginia Enterprise Application Program Office, and other agencies in developing the system. Accounts contributed a full-time resource to assist with the process during 2008 and plans to provide an additional resource in the coming year.

In January 2009, the Department of Motor Vehicles (DMV) applied to the Information Technology Investment Board to upgrade its Customer Services Information System, which will accumulate a significant amount of information for dealing with Virginia Citizens. The nature and type of information is such that numerous agencies, who deal with citizens, would benefit from having data standards for this information. Therefore, we recommend that the Secretaries of Finance, Technology, Transportation, and Public Safety, and the Courts system work with DMV to ensure the adoption of standardized information for the use of all of these agencies.

We also recommend the Secretary of Finance and State Comptroller continue to work with the Virginia Department of Transportation and Virginia Enterprise Application Program Office to ensure the Commonwealth continues to move forward with the modernization of its financial systems.

### Financial Processes

In our March 2005 report entitled “Review of Statewide Reporting Process”, we recommended Accounts improve the process to prepare the Commonwealth’s Comprehensive Annual Financial Report. We recognize that the changes necessary to evaluate and implement our recommendations cannot occur in a short period of time and therefore we have continued to monitor and report on Accounts’ efforts. Accounts has made progress towards addressing our recommendations. However, as many agencies have eliminated or combined administrative positions through budget reductions, Accounts will need to continue to identify and address potential issues in the Commonwealth’s financial processes.

## *Agency Review and Assistance*

Accounts' Accounting and Internal Control Compliance Oversight Division performs quality assurance reviews at agencies covering the accuracy of financial information submissions for financial reporting purposes and whether agencies comply with reconciliation requirements and Agency Risk Management and Internal Control Standards. Further, the Division received funding to employ two full-time information security experts, who started in July 2008, to assist smaller-sized agencies in developing information security programs.

Through its quality assurance review process, Accounts has identified issues and made recommendations for improving processes at agencies. We believe that Accounts can enhance this process by becoming more involved in assisting agencies in developing and implementing solutions to the issues they identify. Accounts can provide assistance through training personnel, working with the agency to make specific recommendations for improving internal controls and processes, and working with the agency to research and propose corrections to financial data. We also recommend that Accounts monitor agencies progress toward implementing their suggested corrective actions and follow through to ensure agencies appropriately resolve any issues that involve erroneous financial data prior to its annual financial reporting deadlines.

Accounts has focused its reviews over the accuracy of financial information. We recommend Accounts also focus on how the agencies are producing financial data and make recommendations for improving the efficiency and timeliness of this process. The Division should work jointly with the Financial Reporting Division to look for areas where agencies can rely on the use of estimates to provide more timely information. We encourage them to continue work with the agencies to determine other potential improvements to the process.

## *Financial Reporting*

Accounts' Financial Reporting Division also continues to make progress towards evaluating and identifying areas that require improvement and implementing changes. We have noted considerable efforts in the Financial Reporting Division under the direction of the Assistant Comptroller and Financial Reporting Director. Accounts reorganized this Division several years ago, which has enabled them to incorporate additional review levels internally as well more analysis over agency submissions. As a result, Accounts has identified more errors prior to our review, which has resulted in fewer audit adjustments.

Implementation of a new accounting system will not solve all of the inefficiencies in the current financial reporting process. Therefore, we recommend that Accounts continue to analyze the current methods for communicating information to agencies and accumulating data. Specifically, we recommend Accounts consider alternative formats for its year-end financial reporting instructions to the agencies. Currently, these documents contain a lot of information and can overwhelm agency personnel. In addition, as agencies continue to lose experienced accounting personnel and the accounting standards gain in complexity, it will become more important for Accounts to continue to develop mechanisms such as training programs and informational websites for communicating with agency personnel.

### *Statewide Controls and Monitoring*

Accounts maintains the Commonwealth's centralized accounting and payroll systems and establishes controls surrounding the financial activities and processes surrounding the data in those systems, which are set forth in the Commonwealth Accounting Policies and Procedures (CAPP) manual. Accounts should continue to evaluate the guidelines in the CAPP manual to ensure they are up-to-date and appropriate given the current operating environment. In addition, Accounts should continue to look for other mechanisms for communicating and re-enforcing the importance of key controls and processes to agency personnel.

As indicated above, a current risk for the Commonwealth is the loss of experienced agency accounting personnel potentially resulting in a reduction in internal controls. Therefore, the General Accounting and Payroll Operations and Charge Card Administration Divisions should continue to develop additional methods for monitoring agencies activities throughout the year to determine whether agencies have entered incorrect or inappropriate transactions in the statewide accounting and payroll systems. Accounts should consider using additional data analysis tools such as trigger reports to identify and follow up on suspicious activity. In addition, Accounts should continue to reach out and provide assistance to agencies that experience problems to ensure staff have sufficient training and understanding of the importance of the Commonwealths control structure.

### Consolidate Functions within Secretary of Finance Agencies

The Secretary of Finance should review the current organization and operations of the Departments of Accounts and Treasury and consider consolidating certain functions to improve the effectiveness and efficiency. We believe the Secretary should transfer many of Treasury's Trust Accounting functions in the Operations Division to Account's General Accounting or Financial Reporting Divisions. The transfer would eliminate redundancy between Accounts and Treasury, strengthen internal controls, and clarify and improve staff responsibilities for accounting and financial reporting of the Commonwealth's cash and investments and long-term debt activity.

We have previously reported the need for Accounts and Treasury to improve communications to ensure they do not duplicate efforts and have all of the information necessary to accurately reflect the Commonwealth's financial position. Our November 2005 *Review of the Financial Accounting and Control Operations of the State Comptroller* reported that there were potential opportunities for consolidation within the accounting and financial reporting functions of Accounts and Treasury.

Accounts and Treasury created a work group to promote better communication among the two agencies. However, we do not believe that the work group has completely eliminated the communication issues. Additionally, the work group does not appear to have considered the advantages of some of the other potential benefits of consolidation such as cross-training to reduce risk of the loss of key personnel, improved internal controls and financial reporting, and potential efficiencies related to scale of operations.

Accounts' General Accounting and Financial Reporting Divisions have responsibility for accounting and reporting the Commonwealth's financial activities including the preparation of the Comprehensive Annual Financial Report (CAFR). Treasury's Trust Accounting provides a

substantial amount of cash and investments and long-term debt financial information for use in preparing the CAFR.

The accounting and financial reporting standards governing cash and investments and long-term debt have become more complex in recent years. We believe consolidation of the Trust Accounting functions into Accounts' will help ensure the staff have the information and understanding of not only the nature of the activities, but also the applicable accounting standards in order to properly report the Commonwealth's cash and investments and long-term debt activity.

In addition, Treasury prepares financial statements for several Authorities with significant Commonwealth investment and debt activity, which are the same functions performed by Accounts' Financial Reporting Division. Treasury's Trust Accounting functions also include general accounting, servicing loans, ensuring timely debt service payments, and acting as trustee for bond issues. These activities are consistent with the nature of the functions performed by Accounts' General Accounting Division.

Although a modern accounting system would clearly demonstrate the redundancy of functions and reporting, the lack of such a system should not serve an excuse to delay and not consider the consolidation of functions. We also believe that while some minimal savings could occur, the most important aspect of this consolidation is the enhancement of internal controls, elimination of duplication, and succession planning for the limited number of staff in Treasury. Finally, we believe that external oversight is necessary to institute such a change, which is why we recommend the Secretary of Finance lead this effort.

## Internal Control and Compliance Findings and Recommendations

### Department of Accounts

#### Improve Information Systems Security Program

Accounts needs to enhance certain areas of its information systems security program. While Accounts generally practices good information security controls, we identified three issues relating to its information security program that need further development to protect its sensitive data and comply with the Commonwealth's information security standard.

First, Accounts has not updated its information technology risk assessment since April 2004. An outdated information technology risk assessment will impede Accounts' ability to mitigate risk and maintain current and effective continuity of operations and disaster recovery plans. The Commonwealth's information system security standard requires agencies to evaluate and update their information technology risk assessments at least every three years, or earlier if warranted.

Second, Accounts has not documented certain procedures or provided inadequate detail in others. We found that Accounts information technology security program does not include procedures to monitor and log system activity, disable unnecessary system services, or discuss the requirements of how to respond to security incidents for its applications and databases.



Third, Accounts' contracts with outside entities, with which it shares sensitive data, do not sufficiently identify Accounts' requirements regarding secure transmission, storage, access, system breach, and adherence to regulatory requirements. Complete documentation of information technology policies, procedures, and requirements will ensure consistent application of Accounts' information security practices and will minimize the risk as it relates to the confidentiality, integrity, and availability of data and information.

To further protect its sensitive data and ensure compliance with Commonwealth standards, Accounts should update its Risk Assessment, improve its information technology security policies, and include its security requirements in its interoperability contracts. We recommend that Accounts dedicate the necessary resources to address the issues identified above.

### Department of Taxation

#### Evaluate and Strengthen the Attachment Preparation and Review Processes

Taxation's Fiscal Division is required to submit several attachments, including supplemental information, to the State Comptroller for inclusion in the CAFR. During our audit of the supplemental information, we utilized Taxation's written procedures to ensure that Taxation staff accurately prepared the information. Our audit found several oversights and data entry errors in the receivables, payables, and individual deferred credit supplemental information. In addition, Accounts also found errors in the receivables and payables submission. As a result, Taxation staff had to make several resubmissions of information to the State Comptroller that resulted in more than \$49 million in adjustments to the receivables reported in the CAFR.

The supplemental information submission's preparation process is complex and time consuming. Because of the complexity of the process and the potential impact on the CAFR, the Fiscal Division should consider the high risk of errors and omissions on the preparation and supervisory review of these submissions. We recommend that Taxation evaluate its current preparation and review process to ensure that processes are appropriate and thorough to correct similar errors in the future. In addition, we recommend Taxation evaluate resources to ensure that ample resources are available and utilized to execute the processes. Inadequate preparation and review processes could impact the CAFR if errors go undetected.

#### Improve System Access Management

Taxation periodically reviews user access to various systems; however, this process does not include all significant systems, have a set frequency, have a documented process, and have someone independent of the access requestors review existing access. A review conducted in August did find the need to modify the access for a number of users.

Taxation should formalize this access review process to include, as part of the documentation, which systems are subject to the review, the frequency of the review, and who will initiate and conduct the reviews. Additionally, Taxation should consider having someone

independent of the access requestors and grantors periodically review a sample of individual's access to determine if the process is working as intended.

### Improve Process for Documenting the Information Systems Security Program

Taxation has implemented an adequate Information Systems Security Program and generally practices good internal information technology controls. However, their Information Systems Security Program would benefit from a more formal documentation process to ensure uniformity of information across the various parts of the Program.

Taxation's Information System Security Program is a work in progress that undergoes constant updating and changes for new systems, changing environment, and other factors. In addition, numerous individuals throughout the organization are working on the Program.

During our review, we found a lack of consistency between various components of Taxation's Program. We believe that the Program would benefit from the development of a process to ensure that all sensitive applications and operations receive uniform consideration across the agency. The complexity of operations and the use of numerous staff make this review process for consistency critical. We, therefore, recommend that Taxation improve its Information Systems Security Program by incorporating a process that reviews the components of the Program for consistency when addressing all sensitive applications and operations.

### Properly Complete Employment Eligibility Verification Forms

Taxation is not properly completing Employment Eligibility Verification Forms (I-9) in accordance with guidance issued by the U.S. Citizenship and Immigration Services of the U.S. Department of Homeland Security in its Handbook for Employers (M-274). Employees are required to complete, sign, and date Section 1 of the I-9 on or before the first day of employment. The employer or designated representative must complete, sign, and date Section 2 of the I-9 within three days of employment. In addition, in the Certification section, the employer or designated representative must specify the date of which the employee began employment. Furthermore, Section 2 contains spaces for the employer to list the documents they examined from Lists A or B and C and to record the title, number, and expiration date, if applicable.

In our sample of 23 I-9 forms, we found that Taxation completed four I-9 forms correctly. In the remaining forms, we found the following errors.

- Employees completed the forms after the first day of employment.
- Forms were incomplete because the employer did not record the date employment began.
- Form included the employee's Social Security Number rather than the number of the document reviewed.

We also found that Taxation inconsistently maintains photocopies of the documents used to verify an employee's identity and employment eligibility. In addition, we found photocopies of documents that did not support the documents reviewed in the I-9 preparation process. There were

also instances where Taxation's current internal policy is not in line with the guidance issued by the U.S. Citizenship and Immigration Services.

We recommend that Taxation update their internal policies and procedures for completing I-9's, to avoid future compliance issues which could lead to fines and penalties. Taxation should ensure that the agency's internal policy complies with the policy set by the U.S. Citizenship and Immigration Services. Taxation should also exercise caution when requesting and retaining documents, as any selective or inconsistent document retention practice could increase the potential liability for an allegation of discrimination. Therefore, we recommend that management evaluate and document the document retention policy in the agency's internal procedures.

We also recommend that Taxation ensure that all individuals responsible for completing I-9's receive appropriate training. In addition, Taxation should develop a process for the continuous review of the agency's I-9 process. The federal government has stepped up its enforcement efforts related to hiring illegal immigrants, which makes having a good I-9 process more important.

#### Department of Treasury

Prior Year Recommendation	Status	Estimated Completion Date
Establish Sufficient Controls over the Wire Transfer Process	In-progress	April 30, 2009
Establish Sufficient Controls over Online Banking Systems	In-progress	April 30, 2009
Strengthen Internal Controls over Disbursement Processing	In-progress	June 30, 2009
Establish, Maintain, and Review Centralized Cash, Investment, and Application Access Account Listings	In-progress	June 30, 2009
Update Risk Assessment and Test Business Continuity Plan	In-progress	March 31, 2009
Enable Audit Trails and Transaction History on Information Systems	In-progress	April 30, 2009

#### Follow-up: Establish Sufficient Controls over the Wire Transfer Process

As part of their responsibility for statewide financial services, Treasury executes wire transfers to pay vendors and transfer funds among bank accounts. Treasury performs these transactions for internally managed Commonwealth funds, as well as for other state agencies. In addition, Treasury also allows other state agencies, including the Virginia Employment Commission and the Department of Housing and Community Development, to execute their own wire transfers directly.

During the prior audit, we noted that Treasury had limited or no involvement in agency-initiated wires, and only grants, deletes, and changes access to the online banking systems as the agencies request this access. To resolve these concerns, Treasury is in the process of establishing memorandums of understanding with agencies who directly initiate wires to explain each party's responsibilities and necessary controls. These agreements also include a section directing the other state agency's internal audit to conduct an annual review of the wire transfer process.

#### Follow-up: Establish Sufficient Controls over Online Banking Systems

Currently, select Treasury employees have access to the four concentration banks' online banking systems. Treasury also controls access to these systems for other state agency employees. During the prior audit, we noted a lack of controls surrounding access to some of these systems.

During fiscal 2008, Treasury contacted all other state agencies to confirm account access and verify that all access is reasonable. Management established a new method for adding, modifying, deleting, and reviewing online banking system access. Treasury is currently in the process of developing and documenting policies and procedures surrounding this access.

#### Follow-up: Strengthen Internal Controls over Disbursement Processing

Currently, Treasury reconciles check payment totals to the Commonwealth's Accounting and Reporting System or another originating system to ensure accuracy of processing. Treasury uses "payee match positive pay" processing with certain accounts where the amount and volume of checks is large; which makes the banks responsible for verifying data before clearing the disbursements. However, as reported in the prior year, Treasury personnel have internal access to make certain check alterations before disbursement.

In order to decrease this risk, we recommended that Treasury evaluate viable options to mitigate this risk. These options can include payee match positive pay for all disbursements or an internal reconciliation process. Although Treasury did not meet their internal deadline for implementing "payee match positive pay," management is continuing discussions to implement the process with one financial institution and is evaluating the feasibility of extending "payee match positive pay" to the remaining accounts.

#### Follow-up: Establish, Maintain, and Review Centralized Cash, Investment, and Application Access Account Listings

During the prior audit, we reported that Treasury does not have a centralized automated record of employees' access, including those with signature authority for cash and investment accounts, and those with access to their information systems. This hindered their ability to safeguard Commonwealth assets because management could not determine who has access to what assets and information systems in a timely manner. In addition, without a centralized listing, management could not easily review access for separated employees to ensure that they no longer have access to Treasury's accounts.

During the summer of 2008, Treasury gathered information on employees' access from division managers and placed this information in a database. We reviewed this database and determined that Treasury has begun creating a centralized listing, but has not listed access to all individual applications, including the Unclaimed Property System and some external vendor systems. In addition, management has not performed a thorough review of the listed access to ensure all access is reasonable. During the next year, Treasury intends to review this listing and develop policies and procedures for reviewing and updating the list.

#### Follow-up: Update Risk Assessment and Test Business Continuity Plan

Treasury is in the process of updating their risk assessments and management anticipates updating them by March 2009. Once Treasury has completed their risk assessments, management will have a documented record of present risks to their information systems and the measures taken to minimize those risks.

During fiscal 2008, Treasury did not completely test the business continuity plan as required. Instead, Treasury has only tested components of the plan. By not testing their entire business continuity plan on an annual basis, Treasury cannot evaluate the adequacy and effectiveness of the plan.

Management should complete the risk assessments in a timely manner and test the entire business continuity plan at least annually. As part of this process, Treasury management should review and revise the plan to reflect any concerns noted during testing.

#### Follow-up: Enable Audit Trails and Transaction History on Information Systems

During the prior year, Treasury did not enable audit trails or transaction history features on all of the Department's information technology systems. As a result, individuals could inappropriately change data, either mistakenly or intentionally, and Treasury would not have a readily available mechanism to determine who accessed the data and what activity occurred. For example, during our review, we found one individual with access to change tables within a critical database; this individual was unfamiliar with the tables and lacked the training on how to change the data. Without enabling logging features, Treasury could not easily identify and correct accidentally changed data.

Management is in the process of addressing this concern and has procured a log monitoring software tool.

#### Establish Adequate Controls over Collection of Unclaimed Property Checks

During fiscal 2008, Treasury had inadequate controls over the collection of unclaimed property checks. One individual opened all unclaimed property mail that frequently contains checks with a report listing the appropriate distribution of the check. This is a lack of controls over check processing as one individual has complete control over the checks and the accompanying reports explaining the owner of the funds. As a result, Treasury did not have adequate controls to preclude missing and altered checks, especially considering these funds are unclaimed property and the Department does not expect these individual checks.

As part of the Agency Risk Management and Internal Control Standards process, Treasury identified this as a weakness in their own internal controls. However, Treasury did not address timely this concern and take corrective action. We recommend that Treasury address this concern in a timely manner by establishing adequate controls over the collection of unclaimed property checks.

### Establish Adequate Reviews over Financial Records

Treasury misstated interest on investment income and higher education disbursements by \$1.5 million on the Virginia College Building Authority's (VCBA) financial statements. This error is a result of inadequate reviews of individual transactions that Treasury staff post to VCBA records.

In addition, Treasury overstated bond interest payable by \$1.3 million on the Virginia Public Building Authority's (VPBA) financial statements. Treasury staff caused this error by not using the recalculated bond interest for a refunded bond.

Generally accepted auditing standards require the auditor to consider whether a control deficiency exists when the design or operation of a control does not allow management or their employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. The standard provides specific indicators the auditor should regard as at least a significant deficiency and a strong indicator of a material weakness in internal control. In these situations, the lack of an adequate review prevented Treasury from detecting the error initially. As a result, we identified the material misstatements while performing our audit of the Authorities' financial statement preparation.

We recommend that Treasury establish adequate controls and review over Authority financial records to ensure that they are free of material misstatement.

### Perform Adequate Oversight over Trustee

Treasury contracts with the Bank of New York Mellon to provide trustee services for the Virginia College Building Authority and the Virginia Public Building Authority. Under this relationship, Treasury is responsible for providing contract management to ensure that Bank of New York Mellon provides adequate services. Treasury is dependent on the trustee and uses their information when compiling the authorities' annual financial statements.

Treasury does not monitor and manage the Bank of New York Mellon adequately to ensure that it is meeting its trustee service requirements. During our audit, we noticed several issues with the trustee's performance, including: posting transactions to the incorrect accounts, untimely postings, missing statements, untimely resolution of errors, and account balances that do not reflect an accurate transaction history. In addition, the trustee could not originally confirm two significant account balances for VCBA.

Treasury also questions the integrity of the electronic data that they receive and, therefore, do not rely on this information and continues to enter all transactions manually. Treasury staff have noticed these issues and contacted Bank of New York Mellon with some of these concerns. However, we believe that Treasury has not adequately followed-up on these concerns and effectively communicated these concerns internally within Treasury, or escalated the issues to Bank of New York Mellon management. Recently, management has begun to address more concerns and met with the trustee's management in December to discuss a list of their concerns. Treasury management expects Bank of New York Mellon to make significant progress by March.

By not managing the trustee arrangements adequately, Treasury has created an environment that can allow numerous reporting errors that Treasury staff must find and address. This reduces the efficiency of Treasury staff, since they must review each transaction carefully, make note of inaccuracies, inform the trustee of issues, and enter information for over five hundred accounts manually. When Treasury manages this relationship properly and demands accurate and timely information, Treasury could not only reduce the amount of time spent on correcting inaccuracies, but could also upload the information into their spreadsheets electronically and analyze the information.

Treasury management should formally evaluate the trustee's performance and communicate concerns to the Bank of New York Mellon. Management should then monitor this relationship more adequately to ensure that the Bank of New York Mellon meets its contractual requirements. Once Treasury believes that the trustee is providing adequate services, Treasury should reevaluate their processes to determine where inefficiencies exist and what information and format they need from the trustee. Treasury can then make necessary efficiency improvements such as using available electronic data.

#### Conduct Security Awareness Training Timely

Treasury has not performed security awareness training in accordance with its policies and Commonwealth Standards. Security awareness training provides management some assurance that employees understand their roles and responsibilities for information technology security and allows management to take appropriate action when an employee fails to protect Treasury data and systems.

Treasury is making progress toward implementing a complete security awareness training program by using a web-based system to track completion. This system allows Treasury to ensure that new employees complete training timely and allows them to complete refresher training at least annually.

We recommend that management continue to dedicate the necessary resources to ensure that new and existing employees complete and acknowledge receipt of information technology security awareness training and that records of completed training be retained for at least a three-year period. Additionally, we recommend that Treasury's Information Security Officer ensure that departments are complying with security awareness training requirements by reviewing training content and attendance periodically.

## FINANCE SECRETARIAL OVERVIEW

The Departments of Accounts, Planning and Budget, Taxation, and the Treasury and the Treasury Board report to the Secretary of Finance and primarily serve other agencies within the Commonwealth in a central support capacity. These agencies perform critical functions in the Commonwealth's statewide financial management system. Many of these functions crosscut agencies, requiring these agencies to work together and share information. Responsibilities include the following.

- maintaining the Commonwealth's centralized operating systems
- preparing the Commonwealth's year-end financial statements
- preparing and executing the Commonwealth's budget
- providing guidance to agencies on the Commonwealth's budget and accounting process
- forecasting and collecting revenues
- administering tax laws for individuals and corporations
- managing the Commonwealth's cash, investments, and debt
- processing agency disbursements

The agencies within the Finance Secretariat work closely together in the budgeting, management and reporting of the Commonwealth's resources. An overview of these activities and the interaction of the agencies within the Finance Secretariat in performing these activities are included below. Detailed information on each agency's operations is included in the individual agency section of this report.

### Budget Development and Execution

Planning and Budget aids in the development and administration of the state budget. Planning and Budget relies on information from all agencies and universities in developing revenue estimates and expense budgets. Accounts provides Planning and Budget with information regarding unspent balances and carry forward amounts. Taxation also has a significant role in the budget development process in that it develops the General Fund revenue forecast for the Commonwealth. Taxation also assists in revenue forecasting for certain non-general fund revenues which are primarily transportation related.

Once the General Assembly and the Governor have approved the budget, Planning and Budget provides an electronic copy of the budget to Accounts to upload into the Commonwealth Accounting and Reporting System (CARS), which the system uses to control agency spending. CARS contains automated edit controls to ensure agencies do not exceed the spending authority established in the budget. Planning and Budget also reviews and approves administrative budget adjustments. Jointly, Planning and Budget and Accounts ensure that CARS properly reflects these budget adjustments.



## Financial Management

Agency Officials from Treasury, Accounts, and Taxation are all members of the Treasury Board and play a key role in the collection, investing, and debt management activities of the Commonwealth.

Taxation is the largest collector of Commonwealth revenue, which it primarily deposits to the General Fund. It also collects a significant amount of tax revenue that is later distributed to localities by Accounts. Taxation and Accounts also collect money owed to the Commonwealth through a debt set-off program that they jointly administer. Treasury manages and invests the Commonwealth's funds throughout the year trying to achieve the highest level of returns based on the operational needs of the Commonwealth.

Treasury is responsible for the issuance and management of debt of the Commonwealth and several of its boards and authorities. Through providing staff services to the Treasury Board, Treasury participates in developing the terms and structure of debt issued throughout the Commonwealth.

## Financial Reporting

Accounts prepares several key reports used to monitor the Commonwealth's activity throughout the year and report year-end results. The other agencies within the Finance Secretariat also contribute to this process due to the significance of their roles in budgeting and financial management activities of the Commonwealth.

During the year, the Commonwealth monitors its General Fund revenue collections using the Monthly Revenue Report, which the Secretary of Finance issues. Accounts accumulates the financial information for this report from CARS and various agencies. Taxation provides Accounts with the General Fund revenue forecast for the report, and provides detailed information on certain actual revenue collections. Treasury provides Accounts with information on the Commonwealth's investing activity.

At year-end, Accounts prepares two reports: The General Fund Preliminary Report and the Comprehensive Annual Financial Report (CAFR). Accounts prepares the General Fund Preliminary Report using CARS financial activity and information provided by Planning and Budget for the classification of remaining General Fund balances. Accounts prepares the CAFR using financial activity recorded in CARS as well as information submitted by agencies. Due to the significance of the activity controlled by Taxation and Treasury, these agencies must work closely with Accounts in providing the information necessary to prepare the CAFR.

## Central Systems

Accounts maintains the Commonwealth's centralized automated accounting, payroll, and fixed asset systems. CARS is a cash-basis accounting system that records all of the Commonwealth's cash receipts and disbursement transactions and provides a means to enforce state appropriation law for all state agencies through automatic edits and manual reviews. The Commonwealth Integrated Payroll/Personnel System (CIPPS) is the Commonwealth's central

payroll and leave system. Agencies and institutions use CIPPS to process employee salaries and wages, tax computations, payroll deductions, and leave transactions. The Fixed Asset Accounting and Control System (FAACS) and Lease Accounting System (LAS) record the Commonwealth's capital and controllable assets and leases.

Planning and Budget maintains several systems to support the budgeting process. The Web-based Budget Entry and Report System (Web BEARS) allows state agencies to develop and submit their budget requests to Planning and Budget over the Internet. Planning and Budget also maintains the Form 27 Automated Transaction System (FATS). FATS is the mechanism for executing administrative adjustments to the approved budget. Both agency and Planning and Budget staff have access to FATS to initiate and process these adjustments.

Planning and Budget also maintains the Electronic Fiscal Impact Statement System (EFIS). Planning and Budget and other selected state agencies use EFIS to assign, track, develop, and submit Fiscal Impact Statements (FIS) on proposed legislation. The agencies generally use the system during the Virginia General Assembly session. FIS documents are accessible to the public on the General Assembly's Legislative Information System.

### Budgetary Highlights

General Funds are the primary resource for funding the Secretary of Finance agencies' operations and account for approximately 88 percent of the overall operating expenses. The original operating budget for agencies in the Finance Secretariat totaled approximately \$133 million. The final operating budget for agencies totaled \$145 million, an increase of \$12.5 million, as a result of various budget adjustments approved by Planning and Budget. The Secretary of Finance budget increased by \$6.5 million, with the majority of the increase attributable to assistance provided to localities for the implementation of recommendations of the 2005 Base Realignment and Closure Commission. Accounts budget increased by approximately \$3 million, with the majority attributable to pay grants associated with the Commonwealth Health Research Fund. The remaining increase is due to other miscellaneous changes throughout the agencies.

The following table summarizes the original and final operating budgets, as well as expenses for all finance agencies except the Treasury Board. The Treasury Board's financial activity is not included since its activities consist primarily of the payment of debt service on general obligation debt rather than administrative expenses.

Summary of Budget and Expenses for 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Secretary of Finance	\$ 626,592	\$ 7,105,838	\$ 7,084,332
Department of Accounts	11,422,811	14,497,129	14,345,870
Department of Planning and Budget	8,449,102	9,307,159	7,400,802
Department of Taxation	96,086,790	96,630,575	93,616,918
Department of the Treasury	<u>16,349,443</u>	<u>17,913,188</u>	<u>16,306,059</u>
Total – Finance Agencies	<u>\$132,934,738</u>	<u>\$145,453,889</u>	<u>\$138,753,981</u>

*Source: Commonwealth Accounting and Reporting System*

## INDIVIDUAL AGENCIES

The following provides detailed information for each of the finance agencies, including an overview of the agencies' operations. The individual audits of the finance secretariat agencies primarily support the audit of the Commonwealth's CAFR for the fiscal year ended June 30, 2008.

### Secretary of Finance

#### Agency Overview

The Secretary of Finance assists the Governor in the management and direction of the finance agencies and performs program coordination, policy planning, and budget formulation activities.

#### Separate Report

We performed an audit of the financial activity of the Secretary of Finance for the year ended June 30, 2008, and reported our audit results in a separate audit report entitled "The Governor's Cabinet Secretaries" issued in October 2008.

### Department of Accounts

#### Agency Overview

Accounts provides a uniform system of accounting, financial reporting, and internal controls adequate to protect and account for the Commonwealth's financial resources. Accounts major activities include maintaining the Commonwealth's centralized automated accounting, payroll, and fixed asset systems and preparing statewide financial reports.

#### *Central Systems*

Accounts operates and maintains the state's centralized automated accounting system, CARS, as required by the Code of Virginia. To facilitate this, Accounts has developed policies and procedures for entering transactions in CARS and offers periodic training courses to other agencies. Accounts also monitors CARS activity, provides assistance to agencies on financial reporting issues, performs daily cash reconciliations, and resolves errors as necessary. In addition, Accounts processes certain transactions in CARS including reoccurring or correcting journal entries, transfers as required by the Appropriation Act, and the quarterly calculation and allocation among the various funds of interest earned by the Department of the Treasury on the Commonwealth's cash and investments as required by the Code of Virginia and Appropriation Act.

Accounts operates and maintains CIPPS and all related aspects of the payroll process including payroll production, payroll and benefits accounting, and agency assistance and training. Accounts monitors system access at the various agencies and institutions that use CIPPS and

performs a daily reconciliation of all payroll disbursements recorded in CIPPS to amounts recorded in CARS. Accounts operates and maintains FAACS and LAS and provides guidance to agencies concerning the recording and reporting of capital assets and leases.

### *Financial Reporting*

Accounts uses financial data in CARS and submitted by state agencies and higher education institutions to prepare the Commonwealth's official financial statements, the CAFR. Accounts annually issues a series of financial statement directives with guidelines and deadlines for agencies, higher education institutions, and authorities for submitting information. Throughout the year, Accounts provides guidance to agencies on financial reporting issues and also prepares other financial reports and schedules related to the Commonwealth's financial activity and CARS information. Among the other reports are the General Fund preliminary report, the Popular Annual Financial report, the federal and full-costing Statewide Indirect Cost Allocation Plan and the Statewide Schedule of Expenditures of Federal Awards.

Accounts also performs important statewide functions in addition to the above major activities, which can be broken down into four areas:

1. *Evaluation of Agency Accountability* – Accounts evaluates and reports on agency financial accountability, compliance, and internal controls by reviewing state agencies implementation of its Agency Risk Management and Internal Control Standards and performing quality assurance reviews of data submitted by agencies for inclusion in the CAFR. In addition, Accounts monitors agency accountability through its administration of the Fraud, Waste, and Abuse Hotline. Finally, Accounts coordinates training for agency internal auditors, and upon request, provides independent and objective general, technical, and audit assistance.
2. *Providing Agency Administrative Support* – Accounts provides support services such as accounting, human resources, and payroll and benefits administration for several agencies, including the Department of the Treasury, the Department of Planning and Budget, the State Council on Higher Education of Virginia, the Commonwealth Health Research Board, the Virginia Racing Commission and Virginia College Savings Plan. In addition, Accounts provides services to the Enterprise Applications Public-Private Partnership Project Office. The Payroll Service Bureau division of Accounts processes agency level payroll, leave accounting, and certain benefits data entry functions for selected agencies. Finally, Accounts is responsible for administration of the Commonwealth's purchase and travel charge card programs.
3. *Providing Information and Assistance to the Citizens of the Commonwealth* – Virginia's Freedom of Information Act requires that certain data be available to the general public. Accounts stores and manages public records and publishes and maintains several publications on its website. Additionally, Accounts processes Line of Duty Act payments to beneficiaries of certain public safety officers who die or become disabled from work related causes. In addition, Accounts makes monthly payments for health insurance for surviving spouses, disabled officers and their spouses, and dependents.

4. *Distributing Certain Revenue Collections to Localities* - Accounts calculates and distributes certain revenue collections to local governments as required by the Code of Virginia. The Appropriation Act budgets and Accounts records these transfer payments under a separate agency number. Accounts distributed the following amount of revenue during the year.

Sales and use tax for education	\$1,034,906,221
Personal Property Tax Relief Act	950,000,000
Recordation taxes	21,632,043
ABC profits	4,150,000
Wine taxes	4,350,000
Rolling stock taxes	5,645,850
Public facilities rebate tax	1,399,713
Other	<u>157,196</u>
Total	<u>\$2,022,241,023</u>

*Source: Commonwealth Accounting and Reporting System*

Accounts also made recordation tax transfers to the Department of Transportation for the Northern Virginia Transportation District Fund and the Transportation Improvement Set-Aside Fund in the amounts of \$17,290,106 and \$1,077,849, respectively.

### Department of Planning and Budget

#### Agency Overview

Planning and Budget is the central budgeting agency for state government and is responsible for developing and administering the state budget, which allocates money for state agencies and institutions. Planning and Budget conducts policy analyses and evaluations of state programs and services, and coordinates statewide strategic planning and performance measurement efforts. In addition, Planning and Budget operates a budget system to ensure that agencies conduct their activities within fund limitations provided in the Appropriation Act (Act) and in accordance with gubernatorial and legislative intent. The Governor and Planning and Budget have certain statutory authority to increase, decrease, or transfer funds and personnel positions during the fiscal year within constraints set forth in the Act.

During fiscal year 2008, Planning and Budget processed administrative adjustments, which resulted in a \$4 billion increase to the Commonwealth's operating budget and a \$5.2 billion increase to the capital budget. These adjustments result for a variety of reasons, some of which are necessary to process General Assembly actions, and we provide more detail on the adjustments in the "Review of Budget and Appropriation Processing and Control System" report referred to below. The adjustments are within the authority granted to Planning and Budget and the Governor by the General Assembly through the Act. These increases were primarily re-appropriations of prior year's

balances, increases for additional revenues collected not included in the original budget, and increases for items not estimated in the original budget.

In addition to the work performed on the Commonwealth's budget, Planning and Budget also has several other responsibilities, including:

1. *Maintaining Informational Websites* – Planning and Budget maintains two websites that provide information to the public on the Commonwealth's regulations and performance. The Virginia Regulatory Town Hall website provides interested parties with access to a wide range of documents, including text of proposed regulations, background documents, economic impact analyses, guidance documents, an online means for commenting on regulations, and an opportunity to sign up to receive e-mail notifications about regulations and meetings. The Virginia Performs website reports information by agency on two primary processes - strategic planning and performance measurement. These processes are intended to work together to better manage the performance of state government.
2. *Operating the School Efficiency Review Program* – Planning and Budget has operated the school efficiency review program since 2004. Under the program, Department staff, combined with consultants, review operations in local school districts to identify opportunities for saving and application of best practices. Planning and Budget performed four school efficiency reviews in 2008 and schools now pay a portion of the cost of the review.
3. *Providing Staffing and Support to Commonwealth Competition Council* – Planning and Budget must provide staffing and operational support to the Commonwealth Competition Council (Council). The Council, part of the Virginia Government Competition Act of 1995, is an outgrowth of the Commission on Government Reform. The Council is an independent advisory body within the executive branch of Virginia's state government made up of 15 members appointed by the Governor, the Speaker of the House of Delegates, and/or the Senate Committee on Rules. The Council focuses on reducing the size and scope of government activity, especially in areas where the private sector can provide services or products.

#### Separate Report

We performed a review of the budget and appropriation processing control system administered by Planning and Budget for the fiscal year ended June 30, 2008, primarily in support of the audit of the Commonwealth's CAFR for the fiscal year ended June 30, 2008. We plan to issue a separate report on the results of this review, entitled "Review of Budget and Appropriation Processing Control System", in March 2009.

## Department of Taxation

### Agency Overview

Taxation administers and enforces the tax laws of the Commonwealth and forecasts general fund and certain non-general fund revenues to aid in preparation of the budget. Additionally, as a result of Taxation's tax return processing duties, they are the single largest collector of Commonwealth revenue. During fiscal year 2008, Taxation collected \$18.2 billion in revenue, depositing \$16.2 billion into the General Fund. The remaining revenues went to taxpayers as refunds or as transfers to other state agencies or to localities for taxes collected on their behalf. The largest sources of General Fund revenues are individual and fiduciary income taxes and state sales and use taxes. Individual and fiduciary income taxes include taxes from employer withholdings, estimated taxes paid, and individual income tax return payments. Below is a summary of revenue collections for fiscal year 2007 and 2008.

#### Summary of Fiscal Years 2007 and 2008 General Fund Revenue Collections (in millions)

	2007 Actual Revenue	2008 Actual Revenue	Change from Prior Year	Percent Change from Prior Year
Source:				
Withholding	\$ 8,565.5	\$ 8,933.6	\$368.1	4.3%
Non-withholding	2,782.0	2,861.2	79.2	2.8%
Refunds	<u>(1,559.8)</u>	<u>(1,679.9)</u>	<u>(120.1)</u>	7.7%
Net Individual	9,787.7	10,114.9	327.2	3.3%
Sales and use tax	3,049.1	3,075.5	26.4	0.9%
Corporate income tax	879.6	807.9	(71.7)	(8.2)%
Insurance premiums	384.9	396.9	12.0	3.1%
Public service	88.0	96.4	8.4	9.5%
Wills, suits, and deeds	582.9	456.3	(126.6)	(21.7)%
All other taxes and revenue	<u>793.7</u>	<u>819.1</u>	<u>25.4</u>	3.1%
Total	<u>\$15,565.9</u>	<u>\$15,767.0</u>	<u>\$201.1</u>	1.3%

Source: Review of General Fund Revenue and the Virginia Economy for Fiscal year 2008 as presented by Richard D. Brown, Secretary of Finance, on August 18, 2008.

Actual General Fund revenue collections for fiscal year 2008 exceeded the General Fund forecast by \$15.9 million or 0.1 percent. Non-withholding payments, corporate income taxes, and recordation taxes are the three most volatile revenue sources and depend on economic and non-economic conditions.



Total individual non-withholding payments increased 2.8 percent in fiscal year 2008, but fell short of the forecast by \$9.6 million or 0.3 percent. These payments consist of both estimated and final payments. A small surplus in final payments slightly offset a shortfall in estimated payments.

Corporate income tax receipts exceeded the forecast by \$108.8 million or 15.6 percent. Corporate income tax collections declined 8.2 percent in fiscal year 2008 compared with the forecast of a 20.5 percent decline. The surplus in net receipts was attributable to unexpected growth in payments, specifically in companies involved with federal contracting and energy.

Individual income tax refunds increased 7.7 percent in fiscal year 2008 compared with the forecast of 9.7 percent growth. Refunds were \$30.5 million or 1.8 percent below the official estimate. Individual refunds can include a taxpayer's base refund, land preservation credits, and low income tax credits. Taxation has a small surplus in fiscal year 2008 attributable to lower than anticipated claims of the land preservation credit. Taxation will account for the amount of land preservation tax credits not claimed in fiscal year 2008 in fiscal year 2009 and fiscal year 2010, since the credits remain valid. Base refunds continue to reflect the weakening economy, increasing 6.6 percent in fiscal year 2008. Over the last two years, base refunds have increased about nine percent per year.

Recordation taxes fell short of the forecast by \$39.2 million or 7.9 percent. Home sales, refinancing, and price appreciation all drive recordation tax revenues. From fiscal year 2001 through 2006, recordation tax receipts increased with the boom in the housing market, growing an average of 20.6 percent per year. Over the last two years, the downturn in the housing market has resulted in declines in volume and prices. Adjusted for increased in the average sale price, recordation tax collections finished at a level not seen since fiscal year 1998.

Other tasks that Taxation performs include:

1. *Assisting in Collection of Delinquent Debt* – State agencies use the Code of Virginia's Debt Collection Act to pursue collection of delinquent debts owed the Commonwealth. Under the Act, the Department of Taxation has authority to set off any tax refunds due to a debtor of the Commonwealth against any delinquent amounts they owe.
2. *Providing Other Services* – Taxation also provides services related to compliance audits, collections including court debt collections, appeals and rulings, and assists localities and local assessors pertaining to valuation and assessment.

## Department of the Treasury

### Agency Overview

Treasury, under the direction of the State Treasurer, serves as the custodian of state funds for disbursement, investment, and borrowing.

Treasury is responsible for the printing and distribution process of all checks and distributes electronic payments for individual agencies. The check writing function is one continuous operation

from file transmission, to printer, to the output of the check document. Monthly, the Commonwealth's two disbursement banks are responsible for full reconciliation of check disbursement activity. Treasury employs a completely automated system called Recon Plus which interfaces with other bank systems, allowing Treasury to reconcile accounts within 45 days of month end. Treasury also reconciles all state deposits between the State Comptroller's ledger and the bank for the Concentration, Regional and Special and Trust Bank Accounts

In addition to the disbursement of state funds, Treasury is responsible for the investment activities of the Commonwealth. The largest portfolio managed by the Treasury is the General Account of the Commonwealth, a pool of investments representing assets of the General Fund of the Commonwealth, higher education (operating), highway maintenance, and transportation trust funds. The General Account has two pools: the primary liquidity pool and the total return pool. Treasury internally manages the primary liquidity pool, which provides the major source of liquidity for the disbursement requirements and operational needs of the Commonwealth. The externally managed total return pool seeks to generate higher total returns over time, as compared to the liquidity pool. Treasury's target allocation for the overall general account asset mix is 75 percent for the primary liquidity pool and 25 percent for the total return pool. Treasury's monthly average invested balance for fiscal year 2008 was \$7 billion. The average yield for fiscal year 2008 was 5.04 percent, which is lower than the 5.3 percent return for fiscal year 2007. The difference between each year is a result of a decrease in market rates during those years. The yield is a composite yield from both internally managed primary liquidity portfolio and from externally managed extended duration portfolio.

Treasury also manages the Local Government Investment Pool (LGIP) in addition to the General Account. LGIP is a short-term investment pool offered to counties, towns, cities, state agencies, departments, and authorities of the Commonwealth of Virginia. It is an open-ended money market type fund that offers public funds investors daily liquidity, diversification, and professional management. Treasury manages the pool in compliance with SEC regulations for money market funds. Standard & Poors Corporation has assigned the pool its highest rating, which is "AAAm."

Further, Treasury manages the Commonwealth's statewide banking network, monitors its own and other agencies' specialized banking services, and administers the State Non-Arbitrage Program.

Treasury is responsible for a third aspect of managing state funds which is the issuance and management of debt for the Commonwealth and several of its boards and authorities. Treasury monitors outstanding Commonwealth debt issued by certain boards and authorities for reporting and analysis purposes, advises on the financing of state capital projects, and provides staff support to the Virginia Public School Authority, the Virginia College Building Authority, the Virginia Public Building Authority, the Debt Capacity Advisory Committee, and the Treasury Board. Through providing staff services to the Treasury Board, Debt Management participates in developing the terms and structure of debt issued through the Commonwealth. As a result of their efforts, Virginia is one of only six states with a "AAA" bond rating for general obligation debt from three rating services: Moody's Investors Service, Standard & Poors Corporation, and Fitch Ratings, Inc.

Treasury performs several other tasks in addition to serving as custodian of state funds, including the following.

1. *Administration of Insurance Programs* – Treasury administers insurance programs on behalf of the Commonwealth that cover state government, other public entities, and certain individuals serving in the public interest. Administered insurance programs are either self-insured or commercially insured. Treasury bills state agencies, the Compensation Board, and local governments for insurance premiums to cover current and future claims. For the other programs, the risk assumed is limited to certain amounts per occurrence. Types of insurance include liability insurance, property insurance, and fidelity bonds.
2. *Serving as Custodian of Unclaimed Property* – The Unclaimed Property Act establishes the Commonwealth as custodian of certain personal properties (both intangible and tangible personal and real property) until the Commonwealth can locate the owners. Treasury identifies abandoned personal property through annual reporting requirements and the performance of audits and compliance reviews, administers the funds under the Commonwealth's control, and uses its best efforts to return the property to its owner. These efforts include a property search mechanism located on Treasury's website. Treasury holds these funds until they can identify the owner.

The Escheats Statute generally benefits localities through the sale of abandoned real estate by placing the property back on the tax rolls and paying delinquent taxes from the sales proceeds. Owners may claim the excess proceeds of a sale for up to five years after the date of the sale, after which the excess funds go in the Literary Fund.

3. *Performing Trust Accounting Services* – Under this capacity, Treasury performs a few important functions for the Commonwealth including accounting for securities lending transactions, monitoring public depositories under the Security for Public Deposits Act, ensuring all debt service payments are made timely, and preparing financial reports for LGIP and the aforementioned debt issuing authorities.

### Treasury Board

The Code of Virginia sets forth the appointments to the Treasury Board, which includes the State Treasurer, the State Comptroller, the State Tax Commissioner, and four members appointed by the Governor. The Treasury Board has the following responsibilities.

- Exercise general supervision over the investment of state funds
- Administer the Virginia Security for Public Deposits Act
- Control and manage sinking and other funds that the Commonwealth holds as fiduciary
- Contract with an outside manager for the administration of the State Non-Arbitrage Program
- Provide advice and supervision in the financing of state buildings
- Approve the terms and structure of proposed state educational institution bond issues and other financing arrangements
- Approve the terms and structure of proposed bond issues secured by state appropriations
- Administer the regional jail financing reimbursement program
- Issue all general obligation debt of the Commonwealth
- Manage its bond issues in compliance with federal taxation and arbitrage laws

The Treasury Board also makes payments to the Virginia College Building Authority and the Virginia Public Building Authority for lease payments and/or bond principal and interest on the Authorities' appropriation-supported debt. The Board also pays debt service on Article X, Section 9(b) general obligation bonds and processes debt service payments to trustees and/or paying agents on behalf of the Commonwealth Transportation Board bonds to trustees and agents for the bondholders. The following table summarizes the Treasury Board's bond and loan retirement and redemption payments for fiscal year 2008.

Analysis of Bond and Loan Retirement and Redemption  
Payments by Subprogram and Funding Source

	<u>General Fund</u>	<u>Special Funds</u>	<u>Higher Education</u>	<u>Total</u>
Debt Service Payments on General	\$ 95,413,724	\$ -	\$ -	\$ 95,413,724
Capital Lease Payments	14,084,214	-	-	14,084,214
Debt Service Payments on Public Building Authority Bonds	180,272,302	2,425,761	-	182,698,063
Debt Service Payments on College	<u>103,849,673</u>	<u>-</u>	<u>8,842,602</u>	<u>112,692,275</u>
Total	<u>\$393,619,913</u>	<u>\$2,425,761</u>	<u>\$8,842,602</u>	<u>\$404,888,276</u>

*Source: Commonwealth Accounting and Reporting System*



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

January 12, 2008

The Honorable Timothy M. Kaine  
Governor of Virginia  
State Capital  
Richmond, Virginia

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited the financial records and operations of the agencies under the **Secretary of Finance** for the year ended June 30, 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Audit Objectives

Our audit objectives for the audit of the Departments of Accounts, Planning and Budget, Taxation, and the Treasury for the fiscal year ended June 30, 2008, include the following:

- to determine whether management has established and maintained internal controls over the Commonwealth's financial reporting and other central processes and the centralized services provided to agencies and institutions in support of the preparation of the financial statements as indicated in the scope section of this report;
- to determine whether management has established and maintained adequate operating and application system controls over CARS, CIPPS, FAACS, LAS, the Integrated Revenue Management System, the Form 27 Automated Transaction System, and other central systems;
- to evaluate the accuracy of financial transactions related to the processing of payroll and leave activity by Accounts' Payroll Service Bureau;
- to evaluate the accuracy of financial transactions related to tax collections including accounts receivable, deferred revenues and taxes, accounts

payable and other liabilities, and tax and interest revenue as reported in CARS and the Integrated Revenue Management System and in supplemental information prepared by Taxation;

- to evaluate the accuracy of financial transactions related to cash and cash equivalents, investments, debt, risk management, and unclaimed property activity which is controlled by Treasury as reported in CARS and Treasury's accounting records, and in supplemental information prepared by Treasury (including the activity of the Treasury Board, the Local Government Investment Pool, the Virginia College Building Authority, the Virginia Public School Authority, and the Virginia Public Building Authority);
- to evaluate whether appropriation controls in CARS are adequate to ensure program expenses do not exceed appropriations;
- to evaluate the proper approval and documentation of budget adjustments;
- to evaluate the accuracy, reasonableness, and completeness of key performance measure information reported on the Virginia Performs website; and
- to determine whether the agencies have complied with applicable laws and regulations.

#### Audit Scope and Methodology

Management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We reviewed and gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following processes and systems.

#### Department of Accounts

##### Financial Reporting\*

Commonwealth Accounting and Reporting System (CARS)  
Commonwealth Integrated Payroll/Personnel System (CIPPS)  
Fixed Asset Accounting and Control System (FAACS)  
Lease Accounting System (LAS)  
Payroll and Leave Processing by the Payroll Service Bureau  
Performance Measures

## Department of Planning and Budget

Form 27 Automated Transaction System  
Budget Execution  
Budget Adjustment Process  
Performance Measures

## Department of Taxation

Financial Reporting	Lifeworks System
Tax Return Processing	Remittance and Data Capture System
Tax Revenue Collection	Total Automated Capture System
Virginia Tax On-line	Joint Electronic Filing System
Integrated Revenue Management System	Performance Measures
Operating Leases	

## Department of the Treasury (including Treasury Board operations)

Financial Reporting*	Bank Reconciliation System
Bond Issuance	Trust Accounting
Debt Service Expenses	Check Processing System
Investment Trading	Risk Management Claim System
Investment Accounting	Unclaimed Property Management System
Investment Accounting System	Performance Measures

\*including preparation of the Comprehensive Annual Financial Report and Schedule of Expenditures of Federal Awards by Accounts and the preparation of financial statements of the Local Government Investment Pool, the Virginia College Building Authority, the Virginia Public Building Authority, and the Virginia Public School Authority by Treasury

We performed audit tests to determine whether controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the agencies' operations. We tested transactions and performed analytical procedures, including budgetary and trend analysis.

## Audit Conclusions

We noted certain matters involving internal control at Taxation and Treasury that we consider necessary to be reported to management related to the Commonwealth's financial reporting and other central processes and the centralized services provided to agencies and institutions in support of the preparation of financial statements as indicated in the scope section of this report. These matters are described in the section entitled "Internal Control and Compliance Findings and Recommendations".

We noted certain matters involving operating and application system controls over central systems at Accounts, Taxation, and Treasury that we consider necessary to be reported to management. These matters are described in the section entitled “Internal Control and Compliance Findings and Recommendations”.

We found that Accounts’ Payroll Service Bureau properly stated, in all material respects, the financial records reviewed in support of payroll and leave activity.

We found that Taxation properly stated, in all material respects, the financial records reviewed in support of the tax collections activity detailed in the audit objectives as reported in CARS, the Integrated Revenue Management System, and in supplemental information except as noted in the finding entitled “Evaluate and Strengthen the Attachment Preparation and Review Processes” in the “Internal Control and Compliance Findings and Recommendations” report section.

We found that Treasury properly stated, in all material respects, the financial records reviewed in support of the cash and investments, debt, risk management and unclaimed property activity reported in CARS and in Treasury’s accounting records, and supplemental information except as noted in the finding entitled “Establish Adequate Reviews over Financial Records” in the “Internal Control and Compliance Findings and Recommendations” report section.

We found that appropriation controls in CARS were adequate to ensure program expenses do not exceed appropriations.

We found that budget adjustments were properly approved and documented.

We found that key performance measure information was reasonable and properly stated, in all material respects, on the Virginia Performs website.

We noted a matter involving compliance with applicable laws and regulations at Taxation that are required to be reported under Government Auditing Standards. This matter is described in the finding entitled “Properly Complete Employment Eligibility Verification Forms” in the “Internal Control and Compliance Findings and Recommendations” report section.

The agencies of the Secretary of Finance have taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report. We did not perform testwork related to the prior year finding entitled “Properly Complete Employment Eligibility Verification Forms” (applicable to the Departments of Accounts and the Treasury) since the administrative activities of the agencies was not an audit objective of the current year audit. We audit the administrative activities of the agencies on a two year cycle and therefore will follow up on this finding during the fiscal year 2009 audit.



### Exit Conference and Report Distribution

We discussed this letter with management of the respective agencies of the Secretary of Finance and have included their response at the end of this report.

This report is for the information and use of the Governor and General Assembly, management, and citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

SAH:clj



# COMMONWEALTH of VIRGINIA

Office of the Governor

Richard D. Brown  
Secretary of Finance

December 31, 2008

P.O. Box 1475  
Richmond, Virginia 23218

Ms. Staci A. Henshaw, Director  
Reporting and Standards  
Auditor of Public Accounts  
Post Office Box 1295  
Richmond, Virginia 23218-1295

Dear Ms. Henshaw,

Thank you for the opportunity to review "The Audit Risk Alert" recently issued by the Auditor of Public Accounts on the potential transfer of the Department of Treasury's trust accounting functions to the Department of Accounts. While I generally agree that corrective action is required to address certain risk factors, I am concerned that the recommended solution may raise additional internal control issues with respect to mission critical functions within the two affected agencies.

Accordingly, I have directed the Department of the Treasury and the Department of Accounts to evaluate the recommended transfer in light of other appropriate alternatives and to report their findings to me by March 31, 2009. The attached memorandum signed by myself and the agency heads of the Department of the Treasury and the Department of Accounts further outline this approach.

Again, thank you for the opportunity to review this Audit Risk Alert. I look forward to working with you as the affected finance agencies analyze and implement the most appropriate corrective action to address the issues at hand.

Sincerely,

A handwritten signature in dark ink, appearing to read "Richard D. Brown", with a long horizontal flourish extending to the right.

Richard D. Brown

cc: Manju S. Ganeriwala, State Treasurer  
David A. Von Moll, State Comptroller

JAN 5 '09 PM 4:10



# COMMONWEALTH of VIRGINIA

## *Department of the Treasury*

J. BRAXTON POWELL  
TREASURER OF VIRGINIA

P. O. BOX 1879  
RICHMOND, VIRGINIA 23218-1879  
(804) 225-2142  
FAX (804) 225-3187

### MEMORANDUM

TO: Staci Henshaw, CAFR Project Manager  
Auditor of Public Accounts  
Brandy Mikell, Treasury Project Manager  
Auditor of Public Accounts

THROUGH: Richard D. Brown, Secretary of Finance

FROM: J. Braxton Powell, State Treasurer  
David A. Von Moll, State Comptroller

DATE: December 22, 2008

SUBJECT: Audit Risk Alert and Efficiency Issue

The Department of the Treasury (Treasury) and the Department of Accounts (Accounts) appreciate the opportunity to respond to the Auditor of Public Accounts' recommendation pertaining to the consolidation of certain functions within Secretary of Finance Agencies. Both Treasury and Accounts are committed to a process of continually evaluating and strengthening the internal control environment within our agencies with particular emphasis given to cross functionality and interdependency.

We concur that the risk conditions and efficiency recommendations cited merit careful consideration. Given the mission critical nature of these functions to the Commonwealth's financial management goals and objectives, we plan to evaluate all plausible solution options, thoroughly analyze the effect of such changes on other critical functions and identify the appropriate mitigating strategies should our analysis reveal consolidation is the best approach.

Both Treasury and Accounts will form a work group to be headed by the Deputy State Treasurer and the Assistant Comptroller of Accounting and Reporting with the specific task of conducting this study. We expect to conclude our findings and solutions approach by March 31, 2009.

Thank you for bringing this matter to our attention. Please contact us if you have any questions.

Cc: Lewis R. McCabe, Jr., Assistant State Comptroller, Accounting & Reporting  
Robert S. Young, Deputy State Treasurer



# COMMONWEALTH of VIRGINIA

DAVID A. VON MOLL, CPA  
COMPTROLLER

*Office of the Comptroller*

P. O. BOX 1971  
RICHMOND, VIRGINIA 23218-1971

February 10, 2009

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
James Monroe Building  
101 N. 14<sup>th</sup> Street  
Richmond, Virginia 23219

Dear Mr. Kucharski:

The Department of Accounts (Accounts) appreciates the opportunity to respond to the risk alerts and recommendation contained in your 2008 Secretary of Finance Audit Report. Your comments and recommendations are appreciated and are given the highest level of importance and consideration by the Administration and Accounts as we continue to review and improve our current practices. Accounts appreciates your acknowledgement of the progress made on prior recommendations and the recognition that some issues take time to resolve.

## **Secretary of Finance Risk Alerts**

### **Modernize Financial Systems and Processes**

Accounts understands the risks associated with older computer systems and ramifications of potential system failures. Accounts continues to place high emphasis on legacy financial systems replacement. Accounts was directly involved in the Virginia Enterprise Application Project over the past several years, and as noted in the Risk Alert, has assigned a permanent resource to the Enterprise "go-forward" implementation team at the Virginia Department of Transportation. Additional permanent staffing for the implementation team are also planned in future years. In addition, the Assistant Comptroller of Accounting and Reporting is a voting member of the Enterprise Steering Committee. Accounts also recognizes the benefits of adopting standardized data requirements, and several senior management representatives are participating in a project to develop these standardized data requirements.

### **Financial Processes**

Accounts appreciates the acknowledgment of the progress we have made since you first reported on the statewide reporting process in March 2005. We will continue to use a risk-based approach in our evaluation of agency submissions. The Accounting and Internal Control

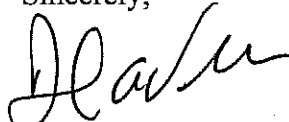
Compliance Oversight Division will continue to evaluate both the efficiency and effectiveness of agency processes when performing agency reviews and will strive to enhance a partnership arrangement with agencies reviewed to facilitate the agencies' understanding and process improvements. Further, Accounts will strive to ensure the Commonwealth Accounting Policies and Procedures Manual is up-to-date and provides appropriate guidance. Accounts will evaluate the year-end financial reporting guidelines to make these more user-friendly and explore opportunities to share information in a beneficial format to agency personnel. Lastly, Accounts will continue to develop methods to identify incorrect or inappropriate transactions in the statewide accounting and payroll systems.

**Secretary of Finance Internal Control Finding and Recommendation**

**Improve Information Systems Security Program**

Accounts agrees that improvements are needed in systems security. DOA has recently hired two Information Security experts to assist small agencies in complying with the Commonwealth's information security standards. DOA served as a pilot-project for these specialists. These experts supervised an agency wide Risk Assessment on all sensitive Information Technology systems and critical business processes. System Owners and the Information Security Officer are in the process of reviewing these assessments and will implement the needed changes to improve Accounts' security posture. Accounts is in the process of drafting a request to our Information Technology service provider (currently Northrup Grumman) to provide results of their monitoring activities to system owners to assist in their review of systems access. The Information Security experts are also documenting DOA's procedures and recommending modifications to contracts with outside entities to comply with the Commonwealth Standards. Revising contracts that were executed prior to the existence of the Commonwealth's information security standards may not be possible, but all new or renewed contracts will conform to these new standards

Sincerely,



David A. Von Moll

Copy: The Honorable Richard D. Brown, Secretary of Finance  
Lewis R. McCabe, Jr., Assistant State Comptroller



# COMMONWEALTH of VIRGINIA

## *Department of Taxation*

January 9, 2009

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
PO Box 1295  
Richmond, Virginia 23218

Dear Mr. Kucharski:

The Department of Taxation (TAX) appreciates the time and effort you and your staff devoted reviewing the department's financial records and operations for the year ended June 30, 2008. Thank you for the opportunity to provide TAX's comments and action plans to address the audit findings identified.

A recap of TAX's plan in response to the audit follows:

1) Properly Complete Employment Eligibility Verification Forms

TAX agrees that we should properly complete employment eligibility verification forms. Prior to the end of the fiscal year, TAX held mandatory training sessions for employees involved in the Employment Eligibility Verification Forms (I-9) verification and post-review processes. We also instituted new practices for the I-9 examination and review processes that include a compliance check by management personnel. In addition, TAX contacted DHRM for guidance regarding how to correct I-9's that were not prepared in compliance with applicable regulations. TAX will also complete the process of correcting the I-9's needing revision, will develop TAX specific I-9 preparation procedures and implement a training program for new employees involved in the I-9 verification and post-review processes.

2) Evaluate and Strengthen the Attachment Preparation and Review Processes

TAX agrees that the attachment preparation and review process should be strengthened. The processes used to prepare and review attachments containing supplemental information included in the Comprehensive Annual Financial Report (CAFR) have been revised. Reports will be developed from TAX's Advantage Revenue System that will reduce the complexity of the attachment preparation and review processes. In addition, employees with more experience with the TAX's receivables will prepare the attachments and independent management personnel will review them prior to submission.



3) Improve Process for Documenting the Information Systems Security Program

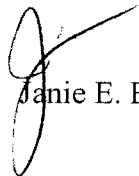
As noted in the comment, TAX currently has an adequate Information Systems Security Program. TAX agrees that the process can be improved. TAX will develop a process to review the components of the program for consistency by April 1, 2009.

4) Improve System Access Management

The finding recommends that TAX should improve its process for management review of user system access and add a supplemental process to independently review a sample of user system access. TAX will increase the scope and better document the management review of user access. TAX will also add an independent review of user access on a sample basis.

Again, I appreciate the opportunity to provide the Department of Taxation's comments as part of your office's report.

Sincerely,



Janie E. Bowen

c: The Honorable Richard D. Brown  
Secretary of Finance



# COMMONWEALTH of VIRGINIA

*Department of the Treasury*

MANJU S. GANERIWALA  
TREASURER OF VIRGINIA

P. O. BOX 1879  
RICHMOND, VIRGINIA 23218-1879  
(804) 225-2142  
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February 10, 2009

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
James Monroe Building  
101 N. 14<sup>th</sup> Street  
Richmond, VA 23219

Dear Mr. Kucharski:

The Department of the Treasury (Treasury) appreciates the opportunity to respond to the comments and recommendations in your draft report on Audit of Agencies of the Secretary of Finance for the fiscal year ended June 30, 2008. Your comments are appreciated and given the highest level of importance by the Administration and Treasury as we continue to review and improve our financial reporting practices and procedures.

## **Internal Control Findings and Recommendations**

### *Follow-up: Establish Sufficient Controls over the Wire Transfer Process*

Treasury's Cash Management and Investments Division reviewed all agencies that had wire transfer authority. It was determined that most wires being completed by agencies are repetitive. Many wires also already have dollar limits and these limits have been established and are noted in the online banking systems. Treasury is in the process of revising the Memoranda of Understanding (MOUs) with the remaining agencies doing wire transfers. The MOUs require the agency to maintain adequate internal controls over the wire transfer process as well as banking privileges. Further, the external agency's internal auditor must submit a report annually to Treasury expressing an opinion on the adequacy of their agency's internal controls.

### *Follow-up: Establish Sufficient Controls over Online Banking Systems*

Treasury is in the process of developing and documenting policies and procedures for the new methodology for additions, modifications and deletions of individuals with online systems access. Treasury has communicated with every Agency in the Commonwealth and will monitor and request annual verification of individuals with access from each Fiscal Officer. Fiscal Officers are responsible for immediately notifying Treasury in the event of an access change.



*Follow-up: Strengthen Internal Controls over Disbursement Processing*

Treasury uses “payee match positive pay” processing with certain accounts where the amount and volume of checks is large. Treasury uses “positive pay” with all disbursement accounts so that amounts cannot be altered. Treasury is in the process of implementing “payee match” in addition to “positive pay” for its remaining disbursement accounts. Treasury’s internal deadline was met, as Treasury expected the Operations Division staff to complete their review and initiate corrective actions by December 31, 2008. The review was complete and corrective actions were initiated in May 2008. Treasury has been working with financial institutions and the Department of Accounts to implement “payee match” in addition to “positive pay” for the remaining disbursement accounts.

*Follow-up: Establish, Maintain, and Review Centralized Cash, Investment, and Application Access Account Listings*

Treasury will continue to improve the centralized access database and develop integrated policies and procedures to provide for annual updates and management’s review of the authorities and permissions granted, as well as immediate notification in the event of a personnel change.

*Follow-up: Update Risk Assessment and Test Business Continuity Plan*

The Risk Assessments for many of Treasury’s systems have been completed and the Information Systems Director will continue until all are finished. The Risk Assessments will be reviewed and approved by the IS Steering Committee and the Agency Head.

The Continuity of Operations Plan (COOP) testing has been approached on an agency-wide and divisional basis. Treasury will conduct testing in a manner that is consistent with the COOP objectives. In light of the current state of financial markets, Treasury has not closed for a day, but has tested components of the plan separately. Management also completed an in-depth review of the COOP and the plan has been revised by streamlining and combining several of the recovery teams with similar functions and making enhancements for ease of use.

*Follow-up: Enable Audit Trails and Transaction History on Information Systems*

Treasury hired an Information Security Officer on November 3, 2008. Log monitoring software was purchased and implemented in December 2008. Servers and server logs are being monitored daily.

*Establish Adequate Controls over Collection of Unclaimed Property Checks*

Treasury reviewed the procedures and controls over the collection of unclaimed property checks and will ensure adequate controls over the mail opening process by having at least two employees open all mail and control receipts at all times. Dual control was implemented by the Unclaimed Property Division on December 3, 2008.

*Establish Adequate Reviews over Financial Records*

Treasury will conduct a thorough review of the procedures and controls over processes associated with the preparation of the Authorities' financial statements. Treasury has revised procedures to ensure interest calculation misstatements will not reoccur.

*Perform Adequate Oversight over Trustee*

Treasury has brought the performance issues to the Bank's attention numerous times which escalated to a meeting with Bank officials on December 4, 2008 in order to resolve the issues noted. Treasury will continue to monitor and evaluate the performance of the trustee. If satisfactory performance is not provided and contractual requirements not met, Treasury will seek another trustee for services. Once the trustee is providing satisfactory performance, Treasury will review our processes and determine possible enhancements.

*Conduct Security Awareness Training Timely*

Treasury acknowledges that security awareness training was not performed during the fiscal year-ended June 30, 2008. However, as of July 1, 2008, Treasury hired a new Director of Information Systems and on November 3, 2008, an Information Security Officer was hired. A new security awareness program has been implemented and made available to all employees. All employees had completed the course as of January 10, 2009. Treasury's Information Security Officer will ensure that new and existing employees will comply with security awareness training and review future training content. Records will be kept for three years. New Information Systems policies and procedures will be written and approved by management to ensure employees understand their roles and responsibilities for information security.

Again, thank you for the opportunity to respond to your report.

Sincerely,



Manju S. Ganeriwala

c: The Honorable Richard D. Brown  
Secretary of Finance

## SECRETARY OF FINANCE AGENCY OFFICIALS

As of June 30, 2008

Jody M. Wagner  
Secretary of Finance

David A. Von Moll  
Comptroller

Richard D. Brown  
Director of the Department of Planning and Budget

Janie E. Bowen  
Tax Commissioner

J. Braxton Powell  
Treasurer